November 30, 2023

Ola Electric Technologies Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Term Loans	750.0	750.0	[ICRA]A (Stable); reaffirmed
Long-term Interchangeable Letter of Credit	(340.0)	(340.0)	[ICRA]A (Stable); reaffirmed
Long term/ Short-term Fund-based Limits/ Non-fund Based Limits	1,061.0	1,061.0	[ICRA]A (Stable)/[ICRA]A1; reaffirmed
Long-term/ Short-term Unallocated Limits	76.0	76.0	[ICRA]A (Stable)/[ICRA]A1; reaffirmed
Total	**1,887.0**	**1,887.0**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view on Ola Electric Technologies Private Limited (OETPL) and its parent, Ola Electric Mobility Private Limited (OEMPL), for arriving at the credit ratings, given their common management as well as significant operational and financial linkages between the entities. Hereafter, both the entities are together referred to as the company.

The rating reaffirmation remain supported by the company's strong balance sheet, characterised by a healthy capital structure and adequate liquidity profile, primarily aided by funds raised from institutional investors. Even as the company commenced deliveries of electric two-wheelers (e2Ws) only from December 2021, it has assumed a leadership position in the e2w industry. A favourable outlook for the Indian e2W industry, backed by supportive Government policies (like the Faster Adoption and Manufacturing of Hybrid and Electric Vehicle, or FAME, scheme, and the Production Linked Incentive, or PLI, scheme), improving battery technology and greater customer awareness and acceptability, is expected to aid the growth prospects of the company and support ramp up of its operations.

ICRA notes that a reduction in subsidy benefits, available under the FAME II scheme from June 2023, is likely to moderate the adoption to Electric Vehicle's (EV) over the near term and the same has also led to a longer than expected time period for the entity to break even at an operating level. As the company absorbed a significant portion of subsidy reduction to ensure cost competitiveness, the timeline to profitability has been prolonged even as the company has been focused on various value engineering initiatives and vendor renegotiations to achieve break even. Nonetheless, the ability of the company to raise further funds (~Rs. 1,150.0 crore raised in September 2023) and ensure adequate liquidity to support the stabilisation phase provides comfort.

ICRA also notes the group's substantial capex plans towards construction of a battery cell manufacturing unit (total project cost of ~Rs. 2,730 crore for 5GWH capacity initially, with plans to ramp up capacity). The group is eligible for benefits under the Advanced Chemistry Cell - Production Linked Incentive (ACC-PLI) scheme, which are expected to support the project return metrices once the project stabilises. The cell plant will act as a backward integration for its e2W manufacturing business, which is expected to support the company's margin profile over the medium term. However, given the initial stage of operations, a timely completion of the project without any delay or cost overrun remains crucial. The project being in the initial stages of construction, exposes it to risks of timely execution, demand/off-take, supply chain and technology obsolescence. Any delay in ramping up the operations may lead to penalty in the subsidy under the ACC-PLI scheme, and remains a monitorable.

Since its establishment in January 2021, OETPL has been a manufacturing entity engaged in the electric mobility business. The initial focus of the company was on the e2W segment, with a gradual foray into other automotive segments planned over the medium to long-term. OETPL has set up an integrated e2W manufacturing plant in India, with currently an annual production capacity of ~1.0 million units (and plans to ramp up the capacity over the medium to long-term) in Krishnagiri, Tamil Nadu. An expected ramp up in scale of operations (aided by lower priced model launches) coupled with launch of Generation 2 (Gen 2) variants and various value engineering initiatives being currently undertaken by the company are expected to help reduce its operational losses and progress towards cash break-even over a medium term. The company manufactures the bulk of the components required in-house, giving it greater control over cost and quality.

The ratings, however, remain constrained by the lack of a long-established track record of on-road performance of e2Ws in the Indian market. Furthermore, given the intense competition in the domestic 2W industry—from incumbent Original Equipment Manufacturer's (OEM) (and their conventional 2Ws) and start-up e2W OEMs—OETPL would need to consistently invest in new product development and business growth. The company remains exposed to delays in receiving subsidy claims under the FAME II scheme; any inordinate delays in receipt of the same would increase its working capital requirements. Additionally, the continuation of subsidy benefits under the scheme after March 2024 also remain a monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that OETPL would continue to occupy a leading position in the Indian e2W industry over the medium term, aided by its large scale of operations, healthy product portfolio and regular investments in new model launches and R&D for future technologies. Further, a healthy capital structure and adequate liquidity would help the company navigate the ramp-up linked stabilisation phase, or any other contingencies.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and liquidity profile – OEMPL, the parent entity of OETPL, is promoted by international investors like SoftBank Group, Tiger Global Management, Matrix Partners, and Falcon Edge Capital, among others. Mr. Bhavish Aggarwal, the founder of Ola Group, together with other investors, have cumulatively infused ~$792 million of long-term capital into the company over the past few years, thereby leading to healthy capitalisation and moderate reliance on external borrowings. Given its track record, the company could look at further rounds of fund raising over the medium term, which may continue to support its capital structure and liquidity profile.

Favourable EV industry outlook aided by supportive Government policies – While India is the largest conventional 2W market (in terms of volumes sold), its e2W industry is still nascent, with ~13-15% penetration expected in the scooter segment in FY2024. A strong push by both the Central and state governments for faster adoption of EVs, has led to improved demand for the higher speed e2Ws and accelerated the electrification transition. Furthermore, significant investment layout announced under the PLI scheme for the automobile segment and advanced chemistry cell batteries is expected to accelerate investments towards a local EV ecosystem development. Even as a reduction in subsidy benefits has led to a temporary slowdown in pace of EV adoption over the past few months, given the improving product features, policy support and enhanced pricing parity with conventional 2Ws, the e2W industry volumes are expected to grow at a robust pace over the medium term, leading to healthy revenue growth potential for OETPL.

Strong market position in the e2W segment – OETPL launched its first products in August 2021and was able to ramp up its scale of operations in FY2023. The company has been able to establish a leadership position in the e2w segment, enjoying a market share of ~35% in April-October 2023. It has established 930 experience centres of 1,500 sqft each and is currently selling around two-thirds of the scooters through experience centres and one-third through the digital platform (Ola Electric website).

Improving backward integration likely to support margin profile over medium term; early mover advantage in lithium-ion cell manufacturing – Aided by the support from institutional investors, the company has set up the largest e2w manufacturing plant in the country and has plans to ramp up the capacity to become the largest, single-location e2W manufacturing plant globally over the medium term. The company manufactures the bulk of its required components in-house, giving it greater control over cost and quality. Given the medium to long-term demand prospects for EVs, domestic auto OEMs and ancillaries are investing in developing a local vendor ecosystem. Through Ola Cell Technologies Private Limited (OCTPL), the group is one of the early movers in lithium-ion cell manufacturing in India, wherein it is setting up a 5 GWh lithium-ion cell manufacturing facility in two phases. OCTPL would act as captive cell manufacturer for the Ola Group in the foreseeable future, and is expected to aid a reduction in cost of production for the group. A proposed supplier park in the plant's vicinity, over the medium term, would reduce logistic costs and improve inventory management. Cumulatively, a large scale and highly integrated operations, would support faster margin expansion for OETPL, as volumes ramp up over the medium term.

Credit challenges

Limited track record of e2W operations – OETPL is Ola Group's first venture in the manufacturing business. The company started its deliveries for e2ws from January 2022 and launched four other variants of its product, thereby enhancing the options available to the consumer. Even as there was a healthy pick up in the company's sales till May 2022, the volumes dipped from June 2023 owing to reduction in subsidy scheme under FAME II. ICRA would continue to track the OEM's ability to ramp-up production, going forward. Any underperformance, especially with respect to product availability and reliability, and volume ramp up has the potential to impact the company's operations and, hence, would be a key monitorable. Nevertheless, ICRA takes comfort from the management team's long track record in manufacturing and other OEM operations.

Significant operational losses; dependence on FAME subsidy – The company was able to achieve a relatively healthy ramp up of sales in FY2023 on the back of healthy improvement in sales volumes, with volumes ramping up to levels of ~22,000 units in April 2023. However, led by reduction in subsidy benefits under FAME II (from June 2023), the volumes moderated and the ramp up in volumes has been impacted to an extent. The company has recorded sizeable operating losses in the current fiscal till date (~Rs. 306.8 crore at OETPL level). The management has guided that the company has taken value engineering initiatives to bring down the bill of material cost, which is likely to start yielding results over the near term, and aid in substantial reduction in the cost of production. Coupled with improved operating leverage, this would aid in helping the company lower its operating losses and progress towards reporting operational profits. The ability of the company to achieve break-even remains to be monitored and would remain critical in helping the company maintain a healthy credit profile. In this regard, a timely receipt of subsidy benefits under FAME II and the continuation of the scheme beyond FY2024 remain a monitorable.

Dependence on imports for supply of critical components – Given the company's import dependence for battery cells (in line with the Indian EV industry), the supply of e2Ws by OETPL would remain vulnerable to geopolitical developments between India and cell exporting nations over the near to medium term. Any change in regulations related to imports of components or supply chain disruptions could likely impact OETPL's operations. ICRA notes that the company is setting up a battery cell manufacturing facility, with commercial production for the facility targeted to begin by March 2024. Its ability to achieve a timely commercialisation of the facility would reduce the company's dependence on imports and aid its growth prospects.

Sizeable capex plans over the medium term for setting up battery cell manufacturing capabilities; project exposed to risks of execution, demand/off-take, supply chain and technology obsolescence – The company is setting up a 5 GWh lithium-ion manufacturing facility in two phases with 1.4 Gwh in phase 1 and 3.6 Gwh in phase 2, and further extend it to 20 Gwh by the end of 2027. The project cost for setting up 5 Gwh would entail a capex of Rs. 2,730.0 crore during FY2024-FY2025. Part of the capex is to be funded through equity (Rs. 820.0 crore) from OEMPL and rest through term debt (Rs. 1,910.0 crore). The financial closure for the project has been achieved; OEMPL has already infused more than Rs. 400.0 crore of equity into OCTPL as of October 2023 and is expected to infuse further equity for funding, as and when required. The parent entity, OEMPL, has also provided a corporate guarantee for the project debt. The project being in the initial stages of construction, exposes it to risks of timely execution, demand/off-take, supply chain and technology obsolescence. The battery cell manufacturing segment is highly technologically complex and has significant dependence on imports for sourcing raw materials, which exposes the project to geopolitical and region-specific risks. In this regard, the company's in-house capabilities and its collaboration with

Top Material Korea (TMK), South Korea, for the technology/supply chain, and expected, captive offtake from Ola Electric Group mitigates the risks to an extent.

Intense competition in the domestic 2W segment necessitating consistent investments – The Indian 2W industry is highly competitive with regular launches of new products and refreshes by OEMs to gain/maintain market share. Given the structural shift in customer preferences towards EVs over the medium to long-term, the competitive intensity in this segment is also expected to increase, as both incumbent OEMs and e2W start-ups race to gain market share. Consequently, consistent investment in EV technology, new product development and regular model launches will remain crucial for OETPL to establish a leading position in the Indian 2W market.

Liquidity position: Adequate

The company's liquidity profile remains adequate, supported by unencumbered cash and bank balances of ~Rs. 1,186.0 crore (including recent fund raise of ~$140 million) as on September 30, 2023 (at a consolidated level). While OETPL has moderate capex commitments over the near to medium term, the group has sizeable capex commitments towards battery cell manufacturing plant (under OCTPL) along with working capital and loss funding requirements likely over the near term for both the entities. The available cash balances coupled with debt drawdown for OCTPL are expected to be sufficient to meet the funding requirements over the near term. ICRA expects the company to continue to raise further funds over the medium term, which will be used primarily for capacity expansion, new product development and geographic diversification, etc.

Rating sensitivities

Positive factors – Healthy ramp up in its operations of the 2W manufacturing business coupled with the ability to achieve cash break even on a sustained basis, while maintaining a comfortable capitalisation, could be favourably considered for a rating upgrade. Timely commencement of operations and ability to achieve cash break even for the battery cell manufacturing plant would also remain critical for an improvement in ratings.

Negative factors – Negative pressures on OETPL's rating could arise from lower product acceptability and/or increase in competition, leading to lower than anticipated sales volumes and profitability. An elongated working capital cycle, or adverse impact of any large debt-funded growth plans, which lead to a deterioration in liquidity profile and credit metrics, would also be a key monitorable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Two-Wheeler Manufacturers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Ola Electric Mobility Private Limited (OEMPL). As on March 31, 2023, OEMPL had nine subsidiaries (including step-down subsidiaries), including OETPL, who are all enlisted in Annexure-II.

About the company

Incorporated in January 2021, OETPL was set up to design, manufacture and sell e2Ws. It is positioned as the leading player in the e2W segment in India (market share of ~21% in FY2023; ~35% in April-October FY2024[1]). The company has set up a state-of-the-art plant in Tamil Nadu, India, with a targeted annual production capacity of 2.0 million e2Ws (to be developed in phases over the medium term). OETPL is a 100% subsidiary of OEMPL, a start-up company in the EV manufacturing and e-mobility

[1] *As per retail sales reported on VAHAN dashboard*

space. The start-up has raised ~$792 million equity over the past three years from reputed investors like SoftBank, Tiger Global Capital, Matrix Partners, and Falcon Edge Capital, etc. It is part of the Ola Group promoted by Mr. Bhavish Aggarwal, which is also present in the ride sharing (through ANI Technologies Private Limited) space.

Key financial indicators (audited)

Consolidated	FY2022*	FY2023
Operating income	373.4	2,651.4
PAT	(784.2)	(1,472.1)
OPBDIT/OI	(206.0%)	(47.0%)
PAT/OI	(210.0%)	(56.0%)
Total outside liabilities/Tangible net worth (times)	0.5	1.4
Total debt/OPBDIT (times)	(1.0)	(1.4)
Interest coverage (times)	(43.6)	(11.4)

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Oct 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 30, 2023	May 15, 2023	Dec 23, 2022	Nov 03, 2021	-
1	**Fund-based Term Loans**	Long term	750.00	750.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	**Interchangeable Letter of Credit**	Long term	(340.00)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
3	**Fund Based Limits/ Non-Fund based Limits**	Long term/ Short term	1061.00	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1		-
4	**Unallocated Limits**	Long term/ Short term	76.00	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1		-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based Term Loans	Simple
Long-term Interchangeable Letter of Credit	Very Simple
Long term/ Short-term Fund Based Limits/ Non-Fund based Limits	Simple
Long-term/ Short-term Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Term Loans	2021	NA	2031	750.00	[ICRA]A (Stable)
NA	Interchangeable Letter of Credit	NA	NA	NA	(340.00)	[ICRA]A (Stable)
NA	Fund Based Limits/ Non-Fund based Limits	NA	NA	NA	1061.00	[ICRA]A (Stable)/[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	76.00	[ICRA]A (Stable)/[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ola Electric Mobility Private Limited	Parent Entity	Full consolidation
Ola Electric Technologies Private Limited	100% (Rated Entity)	Full consolidation
Ola Electric Charging Private Limited	100%	Full consolidation
Ola Electric Mobility B.V.	100%	Full consolidation
Ola Electric Mobility Inc.	100%	Full consolidation
Etergo B.V.*	100%	Full consolidation
Etergo Operations B.V.**	100%	Full consolidation
Ola Electric UK Private Limited***	100%	Full consolidation
Ola Cell Technologies Private Limited	100%	Full consolidation
Ola Electric Technologies B.V.***	100%	Full consolidation

*Source: company; *Wholly owned subsidiary of Ola Electric Mobility B.V., ** Wholly owned subsidiary of Etergo B.V.*

****Subsidiary of Ola Electric Mobility B.V.*

ANALYST CONTACTS

Shamsher Dewan
+91 12 44545300
shamsherd@icraindia.com

Srikumar K
+91 44 45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545808
rohan.kanwar@icraindia.com

Raviteja Etikala
+91 40 45474829
etikala.teja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

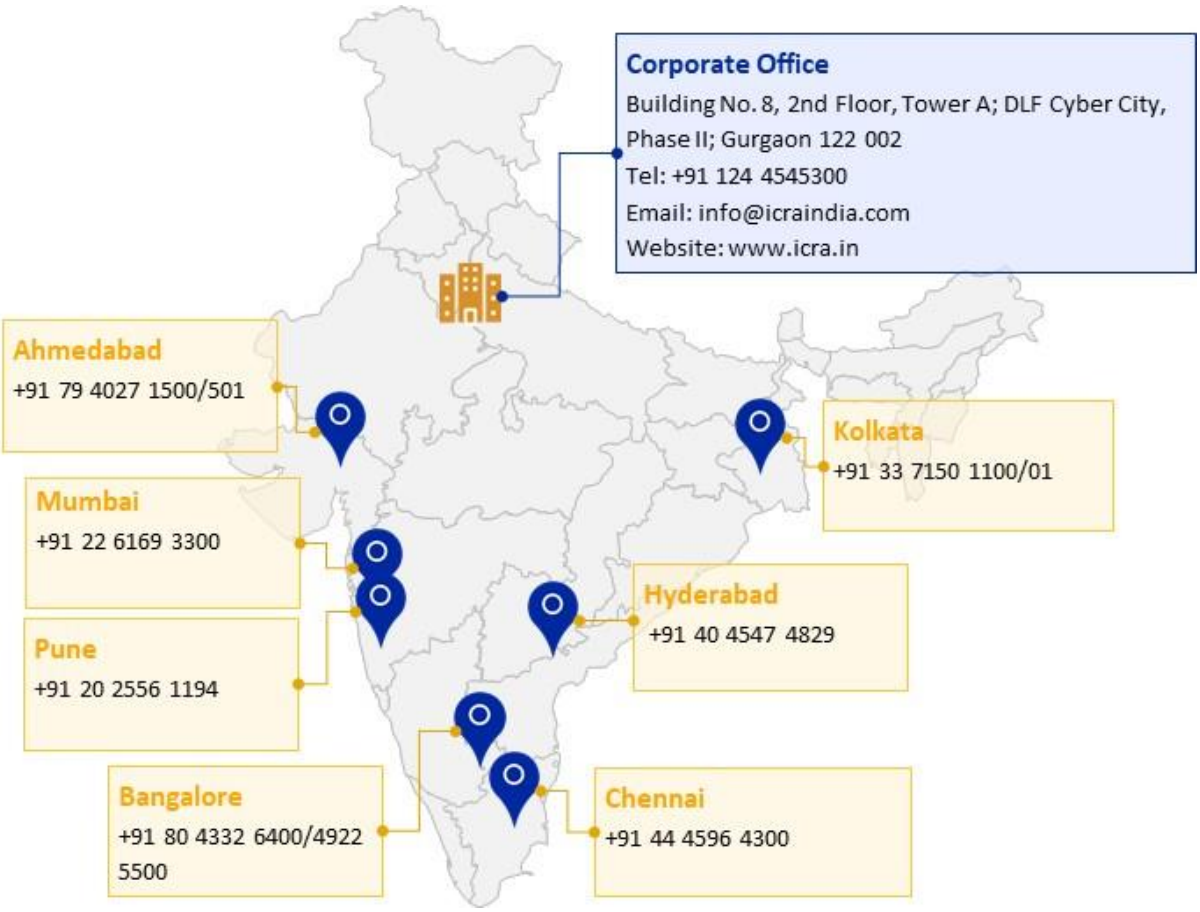
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.